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UNCLAS SECTION 01 OF 02 MONROVIA 000524

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SUBJECT: LIBERIA'S FINAL BUDGET A STUDY IN WISHFUL THINKING

REF A) MONROVIA 375; B) MONROVIA 490; C) MONROVIA 479

¶1. (SBU) SUMMARY: In the midst of anemic commodity prices, flagging interest from would-be concessionaires and reduced growth forecasts, Liberia's National Legislature has approved an amended budget for 2009-2010, adding almost $25 million in expenditures to the Ministry of Finance's proposed $347 million budget. Although the legislature anticipates additional revenue from state-owned enterprises, customs, concessions and overdue taxes, the MOF fears it was political pressures rather than hard-nosed economic analysis that inflated the final budget. Given the strictures of Liberia's cash-based budget, the MOF now is attempting to persuade the Legislature and individual ministries to exercise fiscal restraint, or the GOL will be forced to cut programs mid-year. In future years, the MOF's energetic new budget director believes he will mitigate this politicization of the budget if the ministry can establish a credible economic forecasting unit and is seen to lead a participatory budget process that incorporates civil society priorities. END SUMMARY.

¶2. (SBU) On July 8, the National Legislature approved a 2009-2010 budget with $371.9 million in planned expenditures. The Ministry of Finance had submitted a $347 million budget for legislative consideration on May 19 (ref A). To that draft, the legislature added a 12-page addendum outlining $24.9 million in additional spending on health care, agriculture, education and community development - programs that are likely to be both highly visible and popular with average Liberians. Consistent with the requirement that Liberia maintain a cash-based budget under the terms of its IMF Poverty Reduction and Growth Facility, the legislature also offered a one-page chart outlining the sources of this previously unanticipated revenue.

The Budget as Political Document

¶3. (SBU) President Sirleaf Johnson herself espoused confidence in the Legislature's budget during a July 13 meeting with the Ambassador. When the Ambassador questioned the likelihood of raising additional funds amidst an economic downturn, Sirleaf noted the GOL had conducted a thorough review of parastatals and concluded that six regulators, state-owned enterprises or revenue-generating agencies could furnish further revenue. The President may have a point: the Liberian Telecom Authority recently renegotiated licensing and spectrum fees with the country's four telecom operators (ref B), and the Bureau of Maritime Affairs signed a potentially lucrative new contract with the Liberian Ship and Corporate Registry (ref c); both are likely to generate more revenue in the coming year. But even if the parastatals can deliver, they account for only $4.9 million of the legislature's projected revenue increases.

¶4. (SBU) Optimistic assumptions underlie the legislators' other revenue projections. For example, the GOL anticipates it will collect nearly $7 million in additional corporate taxes from collection on overdue returns and fresh audits. Yet, the MOF

recently dismissed all its auditors and collection rates on unpaid back taxes remain paltry. It also expects ArcelorMittal to pay $3 million owed from last budget year for its iron ore concession, even though the company has dismissed local workers, announced its intention to postpone iron ore extraction until at least 2010, and exhibits little eagerness to placate the government with promised annual payments while it waits out the slump in global demand. More generally, the World Bank's ever-diminishing growth forecasts for Liberia cast doubt on these sanguine revenue projections.

¶5. (SBU) The Ministry of Finance worries the GOL may be unable to collect the full $371 million it plans to spend. The President told the Ambassador that Finance Minister Augustine Ngafuan persuaded the Legislature to trim $8 million in supplementary expenditures, explaining that if growth slows further, even the $347 million in the draft budget may exceed revenues. In fact, that figure already included small capitulations to legislative requests; the MOF's original, conservative budget, submitted to the IMF in April for approval, contained only $294 million in expenditures. Further, the Legislature eliminated a $677,000 Contingency Reserve Fund designed to insulate the MOF from a brief or modest scarcity of cash on hand.

¶6. (SBU) Although the new budget authorizes ministries to begin spending, the MOF hopes to exercise an obscure right under the Revenue Act of 2000 that permits it to prepare a contingent budget prioritizing expenditures based on revenue performance. George Gonpu, Deputy Minister of Finance for Budget, characterized 12% to 16% of projected revenue as "highly uncertain," and hopes to prevail upon the House and Senate Ways and Means Committees to acknowledge unofficial spending limits commensurate with more conservative revenue estimates. If the MOF can achieve a compromise with the

committees, they need not reprise the entire legislative process. Gonpu estimates the MOF will present a more modest budget by the end of the month, and hopes the committees will approve it in early August. However, given that the President signed the legislature's revised budget, any contingent budget they devise will stand merely as a guideline and will not carry the force of law.

Managing Up: MOF and the National Legislature
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¶7. (SBU) Although political grandstanding and ad hominem attacks on the minister marred this year's budget hearings, Gonpu believes it is incumbent upon the MOF to make peace with the legislature so as to avoid the annual repetition of an onerous contingent budget. To that end, Gonpu, a long-time budget director recently invested with the title of deputy minister, identified two projects he will pursue in the coming year. First, he hopes to make the budget process more participatory, through town hall meetings and civil society groups, in order to appease legislators' longstanding resentment of the budget as an executive fiat. Second, he wants to develop a credible economic forecasting unit with well-trained economists and state-of-the-art software, arguing that the legislature overrides the MOF's budget because it lacks confidence in the ministry's revenue estimates.

¶8. (SBU) COMMENT: While Gonpu's notion of a collaborative budget offers little relief for this year's fiscal squeeze, his vision of a process that brings together technocrats, politicians and citizens in the design of a document both economically sound and socially beneficial may be modestly achievable. This year's budget hearings marked some progress in that direction. Ministers who took the stand to defend their earmarks demonstrated an increasingly sophisticated understanding of the necessary compromises involved in the allocation of scarce resources, and legislators demanded they justify gratuitous expenses for travel, vehicles and administrative costs, and urged more attention to the priorities of civil society and the general public. And although some had feared that acrimonious deliberations over the threshold bill would stall passage of the budget, delaying delivery of paychecks and basic services, legislators worked overtime July 7 and 8 to reach a compromise.